

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF MONGOLIA

MILLENNIUM CHALLENGE COMPACT

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MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this “**Compact**”) is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“**MCC**”), and the Government of Mongolia (the “**Government**”).

Recalling that the Government consulted with the private sector and civil society of Mongolia to determine the priorities for the use of Millennium Challenge Account assistance and developed and submitted to MCC a proposal for such assistance; and

Recognizing that MCC wishes to help Mongolia implement a program to achieve the Compact Goal and Project Objectives described herein (the “**Program**”);

The Government and MCC (the “**Parties**”) hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty in Mongolia through economic growth (the “**Compact Goal**”).

Section 1.2 Project Objectives. The objectives of the Projects (each, a “**Project Objective**”) are:

- (a) to increase rail traffic and shipping efficiency through the Rail Project;
- (b) to increase the security and capitalization of land assets held by lower-income Mongolians, and to increase peri-urban herder productivity and incomes, through the Property Rights Project;
- (c) to increase employment and income among unemployed and marginally employed Mongolians through the Vocational Education Project; and
- (d) to increase the adoption of behaviors that reduce non-communicable diseases and injuries that have the greatest impact on mortality (“**NCDIs**”) among target populations and improve medical treatment and control of NCDIs through the Health Project.

The Government shall take all necessary steps to achieve the Compact Goal and Project Objectives during the Compact Term.

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 MCC Funding. MCC hereby grants to the Government, under the terms of this Compact, an amount not to exceed Two Hundred Eighty-Four Million Nine Hundred Eleven Thousand Three Hundred and Sixty-Three United States Dollars (US\$284,911,363) (the “**MCC**”).

Funding”) for use by the Government in the implementation of the Program as more specifically described in Annex II of this Compact.

Section 2.2 Compact Implementation Funding.

(a) Of the total amount of MCC Funding, MCC shall make up to (i) Four Million One Hundred Eighty-Nine Thousand Three Hundred and Fifty United States Dollars (US\$4,189,350), and (ii) an additional Eight Hundred Thirty Three Thousand Three Hundred and Thirty Three United States Dollars (US\$833,333) subject to availability of funds and notification to the Government by MCC (together, the “**Compact Implementation Funding**”) available to the Government under Section 609(g) of the Millennium Challenge Act of 2003, as amended, for:

(i) administrative activities (including start-up costs for MCA-Mongolia such as Technical Secretariat salaries, rent, cost of purchasing computers and other information technology or capital equipment and other similar expenses);

(ii) procurement and start-up activities for key contractors, including but not limited to (1) the outside project management firm for the Rail Project, (2) consultants for each of the Health, Property Rights and Vocational Education Projects, and (3) hiring certain staff for the implementing entities;

(iii) procurement and initial performance of Fiscal Agent, Procurement Agent and Bank services;

(iv) procurement and initial performance of financial management services necessary to perform an assessment of UBTZ’s books and records;

(v) training to be provided by the monitoring and evaluation officer of MCA-Mongolia’s Technical Secretariat, with input from MCC’s expert(s), for the implementing entities and Rail Project outside project management firm to prepare them for their monitoring and evaluation responsibilities; and

(vi) any other activities relating to the implementation of the Compact, approved by MCC.

(b) Compact Implementation Funding shall be subject to such limitations as MCC may require from time to time.

(c) This Section 2.2, and Sections 2.6 and 2.7 below, shall be in effect from the date of execution of this Compact by the Parties without regard to the requirements for entry into force provided in Section 7.3.

Section 2.3 Disbursement. In accordance with this Compact and the Program Implementation Agreement, MCC shall disburse MCC Funding for expenditures incurred in connection with the implementation of the Program (each, a “**Disbursement**”). The proceeds of such Disbursements shall be made available to the Government, at MCC’s sole election, (a) by deposit to a bank account established by the Government and acceptable to MCC (a “**Permitted Account**”) or (b) through direct payment to the relevant provider of goods, works or services in furtherance of this Compact. MCC Funding shall be expended solely to cover expenditures in connection with the

implementation of the Program as provided in this Compact and the Program Implementation Agreement.

Section 2.4 Interest. The Government shall pay to MCC any bank interest or other earnings that accrue on MCC Funding in accordance with the Program Implementation Agreement (whether by directing such payments to a bank account outside Mongolia designated by MCC or otherwise).

Section 2.5 Government Resources; Budget.

(a) The Government shall provide all funds and other resources, and shall take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Compact.

(b) The Government shall use its best efforts to ensure that all MCC Funding it receives, or is projected to receive, in each of its fiscal years is fully accounted for in its annual budget on a multi-year basis.

(c) The Government shall not reduce the normal and expected resources that it would otherwise receive, or budget, from sources other than MCC for the activities contemplated under this Compact and the Program.

Section 2.6 Limitations on the Use of MCC Funding. The Government shall ensure that MCC Funding shall not be used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing by MCC, or by posting on www.mcc.gov (the "**MCC Website**"), including but not limited to the following purposes:

(a) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard as further described in MCC's Environmental Guidelines posted on MCC Website (as they may be amended from time to time, the "**MCC Environmental Guidelines**"); or

(d) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.7 Taxes.

(a) The Government shall ensure that the assistance provided by MCC to the Government under this Compact is exempt from any existing or future taxes, duties, levies,

contributions or other similar charges (“**Taxes**”) by the Government (including any such Taxes of a national, regional, local or other governmental or taxing authority) in accordance with the terms of the “Agreement Between the Government of the United States of America and the Government of Mongolia Concerning Economic, Technical, and Related Assistance,” which entered into force on September 8, 1992.

(b) If any Tax has been levied and paid to the Government contrary to the requirements of Section 2.7(a) above, the Government shall refund promptly to MCC the amount of such Tax out of its national funds. No MCC Funding, proceeds thereof, nor any Program asset may be applied by the Government in satisfaction of its obligations under this Section 2.7.

ARTICLE 3. IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Government shall implement the Program in accordance with this Compact and as further specified in an agreement to be entered into by MCC and the Government and dealing with, among other matters, implementation arrangements, fiscal accountability, disbursement and use of MCC Funding, procurement and applicable tax exemptions (the “**Program Implementation Agreement**”).

Section 3.2 Government Responsibilities.

(a) The Government shall have principal responsibility for overseeing and managing the implementation of the Program.

(b) The Government shall ensure that no law or regulation in Mongolia now or hereinafter in effect makes, or will make, unlawful, or otherwise prevents, hinders or jeopardizes, the performance of any of the Government’s obligations under this Compact, the Program Implementation Agreement or any other agreement related thereto or any transaction contemplated thereunder.

(c) The Government shall ensure that any assets or services funded in whole or in part (directly or indirectly) by MCC Funding will be used solely in furtherance of this Compact and the Program.

Section 3.3 Policy Performance. In addition to the specific policy, legal and regulatory reform commitments identified in Annex I to this Compact, the Government shall commit to maintain and improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, as amended, and the selection criteria and methodology used by MCC.

Section 3.4 Government Assurances. The Government assures MCC that:

(a) as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement with MCC on this Compact is true, correct and complete in all material respects;

(b) this Compact does not, and will not, conflict with any other international agreement or obligation of the Government or any of the laws of Mongolia; and

(c) the Government shall not invoke any of the provisions of its internal law to justify or excuse a failure to perform its duties or responsibilities under this Compact.

Section 3.5 Implementation Letters. From time to time, MCC may provide guidance to the Government in writing on any matters relating to MCC Funding, this Compact or implementation of the Program (each, an “**Implementation Letter**”). The Government shall apply such guidance in implementing the Program.

Section 3.6 Procurement. The Government shall ensure that the procurement of all goods, works and services by the Government or any Provider in furtherance of this Compact will be consistent with MCC’s Program Procurement Guidelines posted on the MCC Website (as they may be amended from time to time, the “**MCC Program Procurement Guidelines**”). The MCC Program Procurement Guidelines include, among others, the following requirements:

- (a) open, fair, and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works and services;
- (b) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works and services to be acquired;
- (c) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and
- (d) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, will be paid to procure goods, works and services.

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents and other evidence relating to this Compact (“**Compact Records**”) adequate to show, to MCC’s satisfaction, the use of all MCC Funding. In addition, the Government shall furnish or cause to be furnished all Compact Records to MCC and its auditors when MCC so requests.

(b) Accounting. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in a manner generally consistent with the standards for the private and public sector issued by the International Federation of Accountants (as well as its boards and committees). Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Provider; Covered Provider. Unless the Parties agree otherwise in writing, a “**Provider**” is (i) any entity of the Government that receives or uses MCC Funding or any other Program asset in carrying out activities in furtherance of this Compact or (ii) any third party that receives at least US\$50,000 in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term. A “**Covered Provider**” is (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$300,000 or more of MCC Funding in any

Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, US\$300,000 or more of MCC Funding from any Provider in such fiscal year, or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$500,000 or more of MCC Funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, US\$500,000 or more of MCC Funding from any Provider in such fiscal year.

(d) Access. Upon MCC's request, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, an authorized United States inspector general, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may otherwise agree in writing, the Government shall, on at least a semi-annual basis, conduct, or cause to be conducted, financial audits of all disbursements of MCC Funding covering the period from signing of this Compact until the earlier of the following December 31 or June 30 and covering each six-month period thereafter ending December 31 and June 30, through the end of the Compact Term, in accordance with the terms of the Program Implementation Agreement. In addition, upon MCC's request, the Government shall use, or cause to be used, to conduct such audits an independent auditor approved by MCC and named on the list of local auditors approved by the Inspector General of the Millennium Challenge Corporation (the "***Inspector General***") or a United States-based certified public accounting firm selected in accordance with the "Guidelines for Financial Audits Contracted by MCA" (the "***Audit Guidelines***") issued and revised from time to time by the Inspector General. Audits shall be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. Each audit shall be completed and the audit report delivered to MCC no later than 90 days after the first period to be audited and no later than 90 days after each June 30 and December 31 thereafter, unless the Parties agree otherwise in writing.

(b) Audits of United States Entities. The Government shall ensure that agreements between the Government or any Provider, on the one hand, and a United States non-profit organization, on the other hand, that are financed with MCC Funding state that the United States non-profit organization is subject to the applicable audit requirements contained in OMB Circular A-133 issued by the United States Government Office of Management and Budget. The Government shall ensure that agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, that are financed with MCC Funding state that the United States organization is subject to audit by the applicable United States Government agency, unless the Government and MCC agree otherwise in writing.

(c) Corrective Actions. The Government shall use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of the Government's records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC shall have the right to arrange for audits of the Government's use of MCC Funding.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact, including as reflected in Annex II.

ARTICLE 4. COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact shall be in writing and, except as otherwise agreed between the Parties, in English. Notice is deemed duly given: (a) upon personal delivery to the Party notified, (b) when sent by confirmed fax or email, if sent during normal business hours of the recipient Party, if not, then on the next business day, or (c) two business days after deposit with an internationally recognized overnight courier, specifying next day delivery. For this purpose, the address of each Party is set forth below.

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Operations
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Telephone: (202) 521-3600
Email: VPOperations@mcc.gov (Vice President for Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Ministry of Finance
Attention: Hon. Nadmid Bayartsaikhan, Minister of Finance
Government Building 2
United Nation's Street 5/1
Chingeltei District
Ulaanbaatar-210646, Mongolia
Facsimile: 976-11-322866
Telephone: 976-51-262155
Email: bayartsaikhan@mof.pmis.gov.mn

With a copy to MCA-Mongolia:

At an address, and to the attention of the person, to be designated in writing to MCC by the Government.

Section 4.2 Representatives. For all purposes of this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Minister of Finance of Mongolia, and MCC shall be represented by the individual holding the position of, or acting as, Vice President for Operations (each, a “***Principal Representative***”), each of whom, by written notice to the other Party, may designate one or more additional representatives for all purposes other than signing amendments to this Compact. A Party may change its Principal Representative to a new representative that holds a position of equal or higher rank upon written notice to the other Party.

Section 4.3 Signatures. With respect to all documents other than this Compact or an amendment to this Compact, a signature delivered by facsimile or electronic mail shall be binding on the Party delivering such signature to the same extent as an original signature would be.

ARTICLE 5.

TERMINATION; SUSPENSION; REFUNDS

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days’ written notice.

(b) MCC may, immediately, upon written notice to the Government, suspend or terminate this Compact or MCC Funding under this Compact, in whole or in part, if MCC determines that any circumstance identified by MCC as a basis for suspension or termination has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact, the Program Implementation Agreement or any other agreement or arrangement entered into by the Government or MCA-Mongolia in connection with this Compact or the Program;

(ii) an event has occurred that, in MCC’s determination, makes it probable that one or more of the Project Objectives will not be achieved during the term of this Compact or that the Government will not be able to perform its obligations under this Compact;

(iii) a use of MCC Funding or continued implementation of this Compact has or would violate applicable law or United States Government policy, whether now or hereafter in effect;

(iv) the Government or any other person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is engaged in activities that are contrary to the national security interests of the United States;

(v) an act has been committed or an omission or an event has occurred that would render Mongolia ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(vi) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Mongolia for assistance under the Millennium Challenge Act of 2003, as amended; and

(vii) the Government or another person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements shall cease upon the expiration, suspension, or termination of this Compact; *provided, however*, that MCC Funding may be used, in compliance with this Compact and the Program Implementation Agreement, to pay for (i) reasonable expenditures for goods, works or services that are properly incurred under or in furtherance of this Compact before such expiration, suspension or termination of this Compact, and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within one hundred and twenty (120) days after the expiration, suspension or termination of this Compact, so long as the request for such expenditures is submitted within ninety (90) days after such expiration, suspension or termination.

(d) Subject to subsection (c) of this Section 5.1, upon the expiration, suspension or termination of this Compact, (i) any amounts of MCC Funding not disbursed by MCC to the Government shall be released from any obligation in connection with this Compact without any action from the Government or MCC, and (ii) any amounts of MCC Funding disbursed by MCC but not expended under Section 2.3 before such expiration, suspension or termination, plus accrued interest thereon, shall be returned to MCC within thirty (30) days after the Government receives MCC's request for such return.

(e) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.2 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any asset acquired in whole or in part with MCC Funding is used for any purpose in violation of the terms of this Compact, MCC shall have the right to require that the Government repay to MCC, in United States Dollars, the value of such misused MCC Funding, interest, earnings, or asset, plus interest, within thirty (30) days after the Government's receipt of MCC's request for repayment. The Government shall use national funds (and no MCC Funding or Program assets) to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 5.2 for a refund shall continue during the term of this Compact and for a period of (i) five years thereafter or (ii) one year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.3 Survival. The Government's responsibilities under Sections 2.4, 2.6, 2.7, 3.7, 3.8, 5.1(c), 5.1(d), 5.2, 5.3, 6.4 and 6.7 of this Compact shall survive the expiration, suspension or termination of this Compact.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

Section 6.1 Annexes. Each annex attached hereto constitutes an integral part of this Compact.

Section 6.2 Inconsistencies. In the event of any conflict or inconsistency between:

(a) any annex to this Compact and any of Articles 1 through 7, such Articles 1 through 7 shall prevail; or

(b) this Compact and any other agreement between the Parties regarding the Program, this Compact shall prevail.

Section 6.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives of both Parties and subject to the respective domestic approval requirements to which this Compact was subject.

Section 6.4 Governing Law; Status. This Compact is an international agreement and as such will be governed by the principles of international law and shall prevail over the laws of Mongolia. In the event of any conflict between the Compact and another international agreement to which the Government is or becomes a party, the Compact shall prevail.

Section 6.5 Additional Instruments. Any reference to activities, obligations or rights undertaken or existing under or in furtherance of this Compact or similar language shall include activities, obligations and rights undertaken by, existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Any reference in this Compact, the Program Implementation Agreement or any other agreement entered into in connection with this Compact to a document or information available on, or notified by posting on, the MCC Website shall be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 Indemnification. The Government shall indemnify and hold MCC and any MCC officer, director, employee, affiliate, contractor agent or representative (each of MCC and any such persons, an "***MCC Indemnified Party***") harmless from and against, and shall compensate, reimburse and pay such MCC Indemnified Party for, any liability or other damage that both:

(a) is (directly or indirectly) suffered or incurred by such MCC Indemnified Party, or to which any MCC Indemnified Party may otherwise become subject, regardless of whether or not such damages relate to any third-party claims; and

(b) arises from or as a result of the negligence or willful misconduct of the Government or any Government affiliate (including MCA-Mongolia) (directly or indirectly)

connected with, any activities (including acts and omissions) undertaken in the furtherance of this Compact;

provided, however, that the Government shall apply national funds to satisfy its obligations under this Section 6.7, and no MCC Funding or Program assets may be applied by the Government in satisfaction of its obligations under this Section 6.7.

ARTICLE 7. ENTRY INTO FORCE

Section 7.1 Domestic Requirements. The Government shall take all steps necessary to ensure that (a) this Compact and the Program Implementation Agreement and all of the provisions of this Compact and the Program Implementation Agreement are valid and binding and are in full force and effect in Mongolia, (b) this Compact, the Program Implementation Agreement and any other agreement entered into in connection with this Compact to which the Government and MCC are parties will be given the status of an international agreement if so stipulated therein, and (c) no laws of Mongolia (other than the constitution of Mongolia), whether now or hereafter in effect, will take precedence or prevail over the terms of this Compact or the Program Implementation Agreement.

Section 7.2 Conditions Precedent to Entry into Force. Before this Compact enters into force:

- (a) the Government and MCC shall execute the Program Implementation Agreement;
- (b) this Compact shall be ratified by the State Great Khural (Parliament) of Mongolia after it is signed;
- (c) the Government shall deliver to MCC:
 - (i) a certificate signed and dated by the Principal Representative of the Government (or such other duly authorized representative of the Government acceptable to MCC) certifying that the Government has taken all steps required under Section 7.1;
 - (ii) a legal opinion from the Minister of Justice and Internal Affairs in form and substance satisfactory to MCC; and
 - (iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force and the satisfaction of Section 7.1, which MCC may post on its website or otherwise make publicly available; and
- (d) MCC must determine that, after signature of this Compact, the Government has not engaged in any action or omission that is inconsistent with the eligibility criteria for MCC Funding.

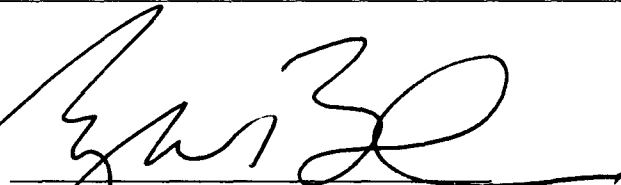
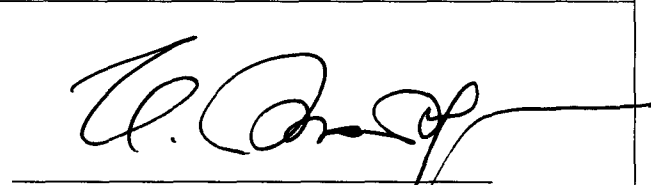
Section 7.3 Date of Entry into Force. This Compact shall enter into force on the later of (a) the date of the last letter in an exchange of letters between the Principal Representatives confirming that each Party has completed its domestic requirements for entry into force of this Compact and (b) the date that all conditions set forth in Section 7.2 have been satisfied.

Section 7.4 Compact Term. This Compact shall remain in force for five years after its entry into force, unless terminated earlier under Section 5.1 (the “*Compact Term*”).

SIGNATURE PAGE BEGINS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed, in duplicate, this Compact this 22nd day of October, 2007.

Done at Washington, D.C.

FOR MILLENNIUM CHALLENGE CORPORATION, ON BEHALF OF THE UNITED STATES OF AMERICA	FOR THE GOVERNMENT OF THE MONGOLIA
	
Name: George W. Bush Title: President of the United States of America	Name: Nambaryn Enkhbayar Title: President of Mongolia

SIGNATURE PAGE TO MILLENNIUM CHALLENGE COMPACT
BETWEEN THE UNITED STATES OF AMERICA
ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION
AND THE GOVERNMENT OF MONGOLIA

ANNEX I

SUMMARY OF PROGRAM

A. PROGRAM OVERVIEW

This Annex I to the Compact summarizes the Program that MCC Funding will support in Mongolia during the Compact Term.

1. Background.

Mongolia is landlocked between Russia and China, with approximately 2.6 million inhabitants in a territory of 1.56 million square kilometers. Nearly half of the population is concentrated in Ulaanbaatar, its capital, approximately 60 percent is located along the rail corridor between Russia and China, and the remainder is largely dispersed throughout the country. Mongolia's aging transport infrastructure and weak institutions are a significant constraint to economic growth and development, particularly given the pressures of the country's abrupt transition to a market economy, the collapse of financial support from Russia, and the rapid urbanization of what traditionally has been a highly dispersed rural herding society. The Program is intended to release the potential of certain critical interlocking human, institutional, and physical resources that factor centrally in Mongolia's efforts to broaden and deepen economic development. The Program is expected to have a significant direct impact on individuals living in poverty, and significant indirect and ancillary benefits by creating new economic opportunities and increasing the capacity of individuals and groups to participate fully in and benefit from economic growth.

2. Program.

The Program consists of the Rail Project, the Property Rights Project, the Vocational Education Project, and the Health Project, as further described below (each, a "***Project***").

The Parties may agree to modify or eliminate any Project, or to create a new project, in writing signed by the Principal Representative of each Party without amending this Compact; *provided, however*, that any such modification or elimination of a Project, or creation of a new project, shall not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, cause the Government's responsibilities or contribution of resources to be less than specified in this Compact, or extend the Compact Term.

3. Consultative Process.

In order to develop a proposal for MCC Funding, the Government conducted a consultative process with the private sector and civil society that involved broad participation of the general public. The public was asked to identify the primary constraints to economic growth in Mongolia, as well as potential uses of MCC Funding to remove such constraints. Thereafter, Mongolia's National Council consulted Mongolia's national development plan and poverty reduction strategy papers and conducted additional targeted consultations with sector experts and stakeholders in order to shape the results of the public consultation into a proposal for MCC Funding. The Program consists of Projects designed to address the primary constraints to economic growth in Mongolia identified in these consultations.

4. Proposals.

MCA-Mongolia will arrange procurement of goods, works and services, as appropriate, to implement all Projects under the Compact. MCA-Mongolia will engage a Procurement Agent who will act on its behalf to manage the acquisition of such goods, works and services. All procurements shall be conducted in accordance with the MCC Program Procurement Guidelines.

5. Environmental and Social Oversight, Monitoring and Capacity Building.

To ensure that environmental and social safeguards and mitigation measures are implemented for the Program by MCA-Mongolia, MCC Funding will be used to engage an environmental and social oversight consultant to enhance the capacity of MCA-Mongolia. This consultant will also work to enhance the capacity of the Ministry of Nature and Environment to enforce and implement the Government's environmental laws and regulations, to train staff, and identify whether additional staff are needed, to carry out effective environmental oversight and monitoring of the implementation of the Program.

B. RAIL PROJECT

1. Background.

Mongolia's rail system is the transportation backbone of the economy, contributing more to GDP than in any other country. The rail system moves 97 percent of the ton-kilometers of freight transport in Mongolia. The Ulaanbaatar Railway Joint Stock Company, in which the Government and the Government of the Russian Federation each own a 50 percent interest ("**UBTZ**")¹, operates Mongolia's railway system. This system, with its antiquated infrastructure, equipment, and practices, cannot meet current demand for rail services and poses a serious economic bottleneck by limiting growth in domestic and foreign trade and associated investment, and contributing to inflation. The Rail Project addresses this bottleneck through improvements in the efficiency and capacity of the rail system, thereby creating new jobs in industries and businesses related to or served by the rail system.

2. Project.

The Rail Project consists of the following activities (each, a "**Project Activity**"):

(a) Rail Sector Technical Assistance Activity.

MCC Funding will be used to provide training and other technical assistance to UBTZ, the Mongolian Railway Authority ("**MRA**"), which is Mongolia's principal regulator of the rail sector, and certain other agencies, to improve their operational, management, maintenance, and regulatory practices. Specifically, MCC Funding will support:

(i) training of personnel at UBTZ as well as those from the private and public sectors involved in the rail sector of Mongolia in the technology, operation, management and

¹ UBTZ is commonly referred to as "MTZ." For the avoidance of doubt, the terms "UBTZ" and "MTZ" refer to the same legal entity.

maintenance of locomotives, wagons, signaling and communication equipment and track, as well as in various aspects of railroad operations (including wagon fleet management, intermodal activities, sales and marketing, and financial management and accounting practices);

(ii) technical assistance to MRA to upgrade its capacity to regulate the rail sector and to strengthen its technical capacities in relevant areas such as rail safety, pricing, and track access licensing;

(iii) technical assistance to UBTZ in sustainability planning and remediation of accounting practices to adhere to IAS;

(iv) technical assistance to the Customs General Administration to strengthen its capacity to enforce and implement laws and regulations relevant to the rail sector and to transport of natural resources; and

(v) identification and management by MCA-Mongolia of environmental, social, health and safety impacts associated with the implementation of the Rail Project, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(b) LeaseCo Establishment Activity.

MCC Funding will be used to assist in the formation of a company owned by the Government to own and lease various railway assets under the Rail Project ("**LeaseCo**"). Specifically, MCC Funding will support:

(i) a regulatory review to determine the optimal method for the development, establishment, management and operation of LeaseCo;

(ii) assistance in establishing LeaseCo, including forming its board of directors, staffing its management unit, and funding certain other start-up costs;

(iii) an outside project management firm who will work with MCA-Mongolia and relevant ministries and agencies of the Government to prepare the scope of work and bidding documents for contracting a private sector firm to manage and operate LeaseCo ("**OpCo**"); and

(iv) the oversight of OpCo by an outside project management firm together with MCA-Mongolia and relevant agencies and ministries of the Government to ensure effective management of LeaseCo for purposes of obtaining rail assets through MCC Funding for lease to UBTZ and other rail shippers and operators in Mongolia.

(c) LeaseCo Operation Activity.

MCC Funding will be used to assist LeaseCo in acquiring various railway-related assets to lease to UBTZ and to other rail shippers and operators in Mongolia. Specifically, MCC Funding will support:

(i) the acquisition by LeaseCo of (1) up to approximately 30 freight locomotives, (2) up to approximately 75 new open top freight wagons, (3) up to approximately 75 new specialized freight wagons, (4) track maintenance equipment, and (5) a modernized

signaling and communications system for installation on the mainline track (collectively, the “*LeaseCo Assets*”); and

(ii) the services of OpCo in effectively arranging leases of the LeaseCo Assets to UBTZ and to other rail shippers and operators in Mongolia.

3. Beneficiaries.

The upgrading of the railway under the Rail Project is expected to facilitate development in both the project impact area and the nation at large. Potential clients of the upgraded railway include shippers of goods into and out of the area who benefit from lower transport costs (compared, for example, to the transport costs for trucks), businesses seeking new markets in, or goods from, the area, potential investors assessing opportunities in the area, and shippers from other regions and countries whose goods are transiting through the area. In addition, the Rail Project will increase the rail system’s capacity to haul minerals to markets, thus leading to more jobs in mining and cargo-handling. The overall direct effect on employment is expected to be approximately 21,000 additional jobs created over 20 years. Of these, 5,300 jobs are expected to be at the low- or unskilled level, and over 2,600 are targeted for the poor. More broadly, over 20 years, approximately 2,395,000 people are expected to benefit from increased economic activity attributable to the railway investment.

4. Donor Coordination.

The Rail Project builds upon the work of other donors to Mongolia. For instance, both the World Bank and the ADB have supported the Government in developing a comprehensive transport strategy. In addition, the International Finance Corporation recently completed a project to strengthen the regulatory structure for leasing in Mongolia while the European Bank for Reconstruction and Development assisted the Government with planning various developments in the transport sector. While no donor is currently working directly in the rail sector, during the implementation of the Rail Project, further collaboration with other donors is expected.

5. USAID.

USAID currently does not focus specifically on the rail sector in Mongolia. However, the Government expects to work with USAID, as appropriate, to identify potential opportunities for coordination with respect to the Rail Project.

6. Sustainability.

In order for the Rail Project to be sustainable, the Government will undertake certain policy, legal and regulatory reforms affecting the rail sector as further outlined in paragraph 7 below. In addition, to ensure the environmental and social sustainability of the Rail Project, the Government will cause MCA-Mongolia to engage in on-going public consultations in which various stakeholders in the Rail Project, including women and other vulnerable groups, are given the opportunity to participate during the development and implementation of the Rail Project. Finally, in light of the possible negative direct, induced, and transboundary impacts of the Rail Project (including: anticipated increases in extractive industries; illegal timber extraction originating from northern Mongolia and eastern Russia; and illegal trafficking in persons), the completion of an environmental and social impact assessment (that includes an EMP) will be a

condition precedent to certain Disbursements for the acquisition by LeaseCo of certain equipment described in paragraph 2(c) of Part B of this Annex I of the Compact.

7. Policy, Legal, Regulatory and Other Reforms; Covenants.

(a) The implementation by the Government of the following policy, legal, regulatory and other reforms described below, satisfactory to MCC, shall be conditions precedent to certain Disbursements:

(i) UBTZ shall commit to undertake continued track, bridge and culvert maintenance as well as annual track upgrades to R65 rails for approximately 35 km of track for each of 2007 and 2008 and approximately 50 km of track annually thereafter during the Compact Term, and UBTZ shall deliver to MCA-Mongolia annual reports on such maintenance and upgrades;

(ii) UBTZ shall commit to making progress towards bringing its financial systems, books and records in line with IAS and to having its financial statements audited at certain intervals as agreed by the Parties during the Compact Term by a qualified international auditing firm in accordance with IAS; and

(iii) UBTZ shall commit to lease newly acquired rail equipment from LeaseCo, to allow LeaseCo to lease such equipment to both UBTZ and other shippers at fair market rates, and to allow such equipment to operate on UBTZ's tracks.

(b) The Government shall ensure that all revenues received by LeaseCo (above a threshold amount agreed by the Parties) which are generated through use of the LeaseCo Assets shall, during the period of the Compact, be used solely for (i) maintenance and repair of the LeaseCo Assets, (ii) acquisition, maintenance and repair of additional rail-related assets from time to time, based on a sustainable LeaseCo business plan approved by MCC and (iii) other uses for which MCC has provided prior written approval.

(c) The Government shall ensure that neither the LeaseCo Assets nor revenues generated thereby or assets purchased therewith are provided directly or indirectly to UBTZ or any other Government entity other than on arms-length, commercial terms approved by MCC.

(d) The Government shall ensure that LeaseCo is not privatized and does not dispose of the LeaseCo Assets nor revenues generated thereby or assets purchased therewith during the Compact period, either in whole or in part, without MCC's prior written approval of the terms and conditions of such privatization or disposal.

(e) The parties agree that LeaseCo is being created in order to contribute to the emergence of a commercially operated, competitive, and efficient rail system in Mongolia, and MCC relies on the Government's assurances that it intends to continue LeaseCo's operations beyond the Compact term, in accordance with the objectives and operating principles applicable to LeaseCo during the Compact term.

C. PROPERTY RIGHTS PROJECT

1. Background.

A steady stream of poor rural Mongolians are abandoning traditional nomadic herding practices and migrating to the cities in search of better lives. The bulk of these migrants are moving to Mongolia's three biggest cities – Ulaanbaatar, Erdenet and Darkhan – where they either settle in suburban “*ger* areas” or peri-urban rangeland areas. Mongolian law gives *ger* area residents the right to obtain ownership to the land upon which they live. However, the complexity and expense of the ownership process make it difficult for these people to become owners in fact and thus capture the full benefits of ownership. In peri-urban rangelands, Mongolia's tradition of open access pasture use, combined with the influx of migrants' herds, has led to overgrazing and triggered interest in new land-use regimes that will encourage investment, improved land use, and higher agricultural productivity. The Property Rights Project is expected to improve the accuracy and accessibility of the formal system for recognizing and transferring land rights and for issuing fully marketable private land titles to *ger* area residents. In addition, the Property Rights Project will introduce a system of leasing peri-urban rangelands to herder groups in lieu of open access, and provide key infrastructure and training so that they can improve livestock management, productivity and, ultimately, farm income.

2. Project.

The Property Rights Project consists of the following activities (each, a “***Project Activity***”):

(a) Improvement of the Land Privatization and Registration System Activity.

MCC Funding will be used to improve the formal system of privatizing and registering land rights. Specifically, MCC Funding will support:

(i) a commission of stakeholders and technical experts to study the obstacles that affect the ability of Mongolian citizens to privatize and register land efficiently and cost-effectively, to make recommendations on how to reduce such obstacles, and to work with Government agencies, the State Great Khural (Parliament), and non-government specialists and interest groups to substantially implement the recommendations;

(ii) upgrade of the geospatial infrastructure necessary for accurate land parcel mapping, including provision of Continually Operating Reference Stations (CORS), supply of Global Positioning System (GPS) equipment to regional land offices, and training on the use of each;

(iii) capacity building for land offices, including creation and support of land market specialist positions to help citizens resolve issues related to land privatization and registration, and training of land office staff in land law, land mapping, use of satellite imagery, and processing of applications for privatization of *ger* area land plots;

(iv) upgrade of the State Registry's central office space, information technology platform and business processes, establishment of offices in at least four districts of Ulaanbaatar, and similar upgrades of State Registry offices in eight regional centers around the country; and

(v) identification and management of environmental, social, health and safety impacts associated with implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(b) Privatization & Registration of Ger Area Land Plots Activity.

MCC Funding will be used to privatize and register approximately 75,000 land plots in the *ger* areas of Ulaanbaatar and eight regional centers. Specifically, MCC Funding will support:

- (i) provision of fully privatized and registered ownership rights to the land plots of low and middle income households;
- (ii) identification of main utility corridors;
- (iii) mapping of public land areas (parks, schools, public buildings, etc.) within the *ger* areas; and
- (iv) identification and management of environmental, social, health and safety impacts associated with implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(c) Peri-Urban Land Leasing Activity.

MCC Funding will be used to identify and lease approximately 300 serviced tracts of rangeland to herder groups in the peri-urban areas of Darkhan, Erdenet, and Ulaanbaatar. Specifically MCC Funding will support:

- (i) production of maps for each peri-urban area showing the location of herders, the lands they use, and identifying suitable leasing sites;
- (ii) installation of wells and supplying of materials for construction of fences and animal shelters on the suitable leasing sites;
- (iii) selection of herder groups to receive leases to the tracts of rangeland (including wells, fences and animal shelters) through a public, transparent and fair process. These herder groups will sign lease contracts that include a requirement to make land use payments covering the private good component of the well, fence and animal shelter investment;
- (iv) training of herder groups to improve their skills in range management, herd productivity, and business and marketing, including stock density management, monitoring rangeland carrying capacity, well operation and maintenance, capturing precipitation run-off, fodder/feed storage techniques, and business and marketing plans. Also, local land and agricultural officials will receive training on their related responsibilities; and
- (v) identification and management of environmental, social, health and safety impacts associated with the implementation of this Project Activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

3. Beneficiaries.

Approximately 75,000 households are expected to gain marketable title to their land plots in *ger* areas as a result of the Property Rights Project. People who are able to use a more accurate and user-friendly registration system to document property purchases, sales and other economic transactions will benefit as well. Similarly, since banks will have better information about prospective borrowers, commercial lending should increase and borrowing costs should decrease. Some 300 herder groups (representing approximately 1,000 households) are expected to lease peri-urban rangelands, engage in better livestock production practices, and subsequently increase their incomes.

4. Donor Coordination.

The Property Rights Project builds upon a variety of other donor's efforts. Most notably, the Property Rights Project makes use of the results of ADB's "Cadastral Survey and Land Registration Project" that has mapped many land parcels slated for privatization and currently is developing a land information system to which the State Registry will supply information on legal rights to land. Moreover, the design of the Peri-Urban Land Leasing Activity is informed by, among others, past efforts of the United Nations Development Programme and the World Bank, and complements an ongoing project being implemented by the Government, the Japan International Cooperation Agency and the Food and Agriculture Organization to improve efficiencies in the dairy system.

5. USAID.

The Property Rights Project has drawn heavily from the experience of USAID's "GER Initiative" that is implementing a variety of economic development efforts in the *ger* areas of Mongolia's cities. In addition, lessons learned from USAID's "Gobi Initiative," focused on enterprise development and improved incomes of families in and around the Gobi region, will inform the final design of the Peri-Urban Land Leasing Activity. Furthermore, the Government expects to work with USAID as appropriate to identify potential opportunities for coordination with respect to the Property Rights Project.

6. Sustainability.

As conditions precedent to certain Disbursements, the Government will be required to provide additional office space, and additional office sites, to the State Registry. The upgraded State Registry is expected to generate increased revenues to be used to support itself. A plan to ensure the sustainability of the State Registry will be produced and implemented so that Mongolia will have a secure system for recognizing and protecting real property rights over the long term. In addition, the various institutional reforms that the Property Rights Project should facilitate will make future privatizations easier. Regarding the Peri-Urban Land Leasing Activity, annual land lease payments to the Government are expected to support improved land management, extension and other services needed by the herder groups, and plans will be developed for management and maintenance of wells and other rangeland infrastructure supplied by the Property Rights Project. Related Disbursements will depend upon the prior development, with relevant stakeholder input, of selection criteria for herder groups that are eligible for leases under the Peri-Urban Land Leasing Activity.

In order to ensure the environmental and social sustainability of the Property Rights Project as a whole, MCA-Mongolia will engage in regular public consultations through which various stakeholders (including women and other vulnerable groups) will have the opportunity to participate in the development and implementation of the Property Rights Project. In addition, a framework environmental assessment (that includes a social assessment) and an EMP will be completed prior to the commencement of (a) any upgrade of the various offices under the Improvement of the Land Privatization and Registration System Activity and (b) any construction activity under the Peri-Urban Land Leasing Activity.

D. VOCATIONAL EDUCATION PROJECT

1. Background.

Mongolia's vocational education system has not evolved to serve the demands of a modern, private-sector led economy. The capacity of this system to teach core technical skills and provide critical labor information is weak, training equipment is limited and outdated, and instructors ill-prepared to teach. Essential public-private partnerships to ensure that students receive high quality, demand-driven training are largely absent, and credentialing systems are substandard. As a result, Mongolia imports skilled labor from other markets, leaving high rates of unemployment among unskilled Mongolians, especially youth. The Vocational Education Project is designed to address this problem, specifically seeking to increase the wages of poor Mongolians by improving their technical skills and productivity to meet labor market demand in key industries (including, among others, construction, mining, electronics, mechanics, and transport). This will be done by (a) strengthening the institutional framework needed to support a demand-driven vocational education system, (b) defining industry-led skills training standards for occupations and translate these standards into a modern vocational education curricula supported by new instructional materials and equipment, (c) developing 30 new career preparation tracks, and (d) improving teacher training and professional development.

2. Activities.

The Vocational Education Project consists of the following activities (each, a "***Project Activity***"):

(a) Reforms to TVET Policy and Operational Framework Activity.

MCC Funding will be used to strengthen the policy and operational framework, to create an efficient governance and standard-setting mechanism, and to secure private sector participation for technical and vocational education and training ("***TVET***"). Specifically, MCC Funding will support:

(i) legal and regulatory reforms that will create and allow the implementation of demand-driven TVET; and

(ii) establishment and support of the National Advisory Board for Vocational Education and Training ("***NABVET***") to enable it to respond to labor market needs, to rationalize public funding, to set standards, and to coordinate quality assurance processes and formal course accreditation.

(b) Creation of Skills Standards and Competencies System Activity.

MCC Funding will be used to establish skills standards and a competency-based qualification training system based on nationally approved units of competency, modules and courses, and to install these innovations in training institutes. Specifically, MCC Funding will support:

- (i) establishment of national TVET standards for short-term and long-term career training fields;
- (ii) development of new, modern, curricula, courses, and instructional materials for short-term and long-term career training fields;
- (iii) development of an assessment and credentialing system to support the new standards and modernized TVET system;
- (iv) improvement of the capacity of regional and national methodology centers to create and distribute materials and training resources to instructors in all types of TVET institutes; and
- (v) strengthening the linkage between in-service and pre-service vocational-technical teacher training programs and improving the sustainability of the TVET teacher training system.

(c) Competency-Based Training System Activity.

MCC Funding will be used to implement the new competency-based training system in TVET schools. Specifically, MCC Funding will support:

- (i) extension of training to approximately 1,500 vocational teachers and administrators in Mongolia's approximately 75 training centers (consisting of approximately 35 Vocational Training and Production Centers under the Ministry of Education, Culture and Science and approximately 40 work development centers under the Ministry of Social Welfare and Labour);
- (ii) provision of equipment and materials needed to deliver the new curriculum being developed for short-term and long-term career training fields as part of the Creation of Skills Standards and Competencies System Activity; and
- (iii) identification and management of environmental, social, health and safety impacts associated with the implementation of this activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(d) Career Guidance System Activity.

MCC Funding will be used to provide career guidance and employment information services to Mongolians. Specifically, MCC Funding will support:

- (i) installation of employment information services in eight regional methodological centers; and

(ii) establishment of a career guidance service and web-based career information system.

3. Beneficiaries.

The TVET Project is expected to almost double the enrollment of long term students in approximately 35 training centers from the current enrollment of approximately 24,700 students to more than 40,000 students. Enrollment in short-term training courses is also expected to significantly increase. The Vocational Education Project is expected to improve the quality of, and to expand access to, TVET. Over the next 20 years, the TVET Project is expected to improve the wage and employment prospects of approximately 170,000 TVET graduates. For these graduates, improved training is anticipated to lead to a starting wage on average 5 percent greater than current starting wages.

4. Donor Coordination; Role of Private Sector and Civil Society.

The project will be implemented in coordination with several on-going projects by other donors, including ADB's "Third Education Development Project" that seeks, among others, to reform the TVET system, a project funded by the Japan Fund for Poverty Reduction for the promotion of non-formal construction worker skills training for vulnerable youth and poor adults, Gesellschaft für Technische Zusammenarbeit's "Urban Development, Construction Sector and VET Promotion Program," as well as its projects on small and medium enterprises promotion.

5. USAID.

Currently USAID does not fund projects addressed at reforming the vocational education system. However, the Government will seek future opportunities to collaborate with USAID on vocational education system issues if such funding is made available.

6. Sustainability.

To ensure the sustainability of the Vocational Education Project, the Parties have agreed to the policy, legal and regulatory reforms outlined in paragraph 7 below, which are expected to improve TVET institutes' income-generating capacity which, in turn, is expected to lead to increased funding support for TVET institutes. To ensure the environmental and social sustainability of the Vocational Education Project as a whole, the Government shall cause MCA-Mongolia to engage in on-going public consultations with various stakeholders (including women and other vulnerable groups) to participate in the development and implementation of the Vocational Education Project. In addition, MCA-Mongolia will be required to develop a framework EMP, including health and safety guidelines for use in the TVET institutes in the program.

7. Policy, Legal and Regulatory Reforms.

(a) Prior to Disbursements for any activity other than the four (4) sub-activities listed below, MCA-Mongolia has developed, satisfactory to MCC, a legal and policy framework to support a modern, labor market driven TVET system, including:

- (i) establishment of NABVET, with half of the members representing, and selected by, the private and non-governmental sectors, and with the other half of the members representing the public sector, as appointed by applicable law;
 - (ii) fostering revenue generation and entrepreneurial capacities through, for example, the sale of products and services provided by vocational education institutes;
 - (iii) harmonizing all public funding for the TVET sector; and
 - (iv) passage of legislation to maintain or increase the level of funding for the TVET sector as of the date the Compact is signed each year during the Compact period.
- (b) The Government shall ensure that no TVET institution benefiting from MCC Funding is privatized during the Compact term, either in whole or in part, without MCC's prior written approval of the terms and conditions of such privatization.

E. HEALTH PROJECT

1. Background.

Mongolia has rapidly increasing rates of NCDIs, including cardiovascular disease, diabetes, cancers and injury-induced trauma. Mongolia's mortality and morbidity rates from cardiovascular disease and cancers greatly exceed those of Western countries and now represent the major cause of death and disability, particularly in younger age groups (*i.e.*, 35 to 55 years of age). Trauma response and emergency medicine are under-developed. At the same time, current NCDI programs in Mongolia are treatment based, with inadequate attention to cost-effective NCDI prevention, early detection, where relevant, and disease management. This has a negative impact on the productivity of the labor force, which is disproportionately affected by NCDIs, and is a significant drain on scarce public health investments. The Health Project focuses on extending the productive years and productivity of the labor force by reducing the incidence and severity of NCDIs such as cancer, cardiovascular disease, diabetes and preventable accidents and trauma, and reducing and refocusing total health expenditure.

2. Project.

The Health Project consists of the following activities (each, a "***Project Activity***"):

(a) NCDI Capacity Building Activity.

MCC Funding will be used to ensure that the program is built on best international experience with NCDI. Specifically, MCC Funding will support:

- (i) establishment of senior NCDI advisory boards and expert panels;
- (ii) assessment of current NCDI practices, personnel, equipment and supplies, and review of relevant protocols, guidelines, and job descriptions for NCDI detection, management and treatment;
- (iii) competitive selection of the *aimags* and districts where the Health Project will be initially implemented;

- (iv) provision of two mammography machines, vehicles and other NCDI equipment and supplies;
- (v) testing the impact of the Health Project using total quality assurance practices; and
- (vi) finalization of baseline data and indicators for monitoring and evaluation of the Health Project.

(b) NCDI Prevention Activity.

MCC Funding will be used to reduce factors for NCDIs through such behavior change communications as public awareness campaigns and education outreach. Specifically, MCC Funding will support:

- (i) development of national and regional NCDI communications campaigns, such as mass media, health fairs, work sites and mobile units promoting healthy lifestyles; and
- (ii) development and implementation of interventions to promote behavior change among youth and high risk individuals to prevent NCDIs.

(c) NCDI Early Detection Activity.

MCC Funding will be used to mobilize client demand for screening, introduce modern cost-effective procedures, and provide key equipment. Specifically, MCC Funding will support:

- (i) implementation of new NCDI screening procedures in selected sites;
- (ii) improvement of cervical cancer screening methodologies;
- (iii) operations research on feasibility of cervical cancer immunization;
- (iv) improvement of breast cancer detection methodologies; and
- (v) identification and management of environmental, social, health, and safety impacts associated with the implementation of this activity, consistent with Section 2.6(c) of the Compact and the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12).

(d) NCDI Management Activity.

MCC Funding will be used to improve the protocols and update training for medical professionals. Specifically, MCC Funding will support:

- (i) development of community-based disease management program and systems; and
- (ii) implementation of new NCDI management services in selected sites.

3. Beneficiaries.

The Health Project targets approximately 60 percent of the Mongolian adult population for community-level communications for behavioral change, early detection and disease management activities. This will lead to extended productive years and productivity of the labor force and decreased health expenditures by households on NCDIs in the target population. In addition, the entire population is expected to benefit from changes in school curriculum and mass education campaigns. Specifically, the beneficiaries are expected to include approximately 43 to 45 percent of the adult population nationwide who will have increased access to early detection of hypertension, elevated cardiovascular disease risks, and diabetes risks. Other beneficiaries include the approximately 60 percent of adult women who will have access to early detection of breast and cervical cancer, healthcare professionals in selected counties and districts who will receive specially-designed NCDI training, and secondary school students who will be made aware of health-promoting choices early in life.

4. Donor Coordination; Role of Private Sector and Civil Society.

The Health Project will complement the activities of other donors in the health sector, including ADB, Japanese International Corps of Welfare Services and the World Health Organization ("*WHO*") that, once having focused on child health and communicable diseases in the past, are increasingly including general support for NCDIs in their programs. Specifically, the Health Project will build upon WHO's laboratory specimen transport system and ADB's physician training, as well as the University of Toronto's research on cervical cancer diagnosis.

While the majority of care within Mongolia for chronic NCDIs (including cancers and cardiovascular diseases) takes place in the public sector, the nascent private sector for health care is growing. For this reason, consultations have taken place with a private hospital association and various physician groups in the design of the Health Project. Civil society's role is expected to be vital as community-level mobilization and motivation for behavioral changes are explored and implemented under the Health Project.

5. USAID.

Currently USAID does not fund any health-related projects in Mongolia. However, the Government will seek future opportunities to collaborate with USAID on NCDI issues if health funding is made available.

6. Sustainability.

In order to enhance sustainability, the Health Project includes the NCDI Capacity Building Activity from its start-up phase. Since changing attitudes and practices of health providers and managers is a critical component to the Health Project's success, the NCDI Capacity Building Activity is expected to build conviction among the Mongolian medical practitioners and clients of the effectiveness of the new interventions under the Health Project. The Health Project initiates preventive and promotive health services requiring additional funding and recurrent costs (including funding for client medications and procedures for the very poor). The Government will commit to financing these additional costs as further described in paragraph 7 below.

In order to ensure the environmental and social sustainability of the Health Project as a whole, the Government will cause MCA-Mongolia to engage in on-going public consultations in which various stakeholders in the Health Project (including women and other vulnerable groups) are given the opportunity to participate during the implementation of the Health Project. In addition, during the development and implementation of the Health Project, a plan for safe and proper use of diagnostic equipment will be developed and used. A framework EMP will be developed for addressing health and safety issues and for assessing compliance with existing waste management regulations in all project related services and facilities. The EMP will include procedures for support of remedial actions to insure compliance with the MCC Environmental Guidelines, environmental regulations and access needs for all potential beneficiaries.

7. Policy, Legal and Regulatory Reforms.

The implementation by the Government of the policy, legal and regulatory reforms described below, satisfactory to MCC, shall be conditions precedent to certain Disbursements.

(a) The Government shall have committed to funding the recurrent costs of the NCDI program following the expiration of the Compact Term.

(b) The Government shall have committed to taking necessary steps to ensure that the recurrent costs for screening and disease management activities for low-income people are covered by the Government following the expiration of the Compact Term.

F. IMPLEMENTATION

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation and fiscal accountability for the use of MCC Funding is summarized below. MCC and the Government shall enter into the Program Implementation Agreement, and any other agreements in furtherance of this Compact, all of which, together with this Compact, shall set out certain rights, responsibilities, duties and other terms relating to the implementation of the Program.

1. MCC.

MCC shall take all appropriate actions to carry out each of its responsibilities in connection with this Compact and the Program Implementation Agreement, including the exercise of its approval rights in connection with the implementation of this Compact and the Program.

2. Governance.

(a) Establishment of MCA-Mongolia. Under this Compact, the Government hereby establishes an independent legal entity empowered to carry out the Government's obligations and to implement the Program under this Compact and the Program Implementation Agreement ("**MCA-Mongolia**"). The Government shall ensure that MCA-Mongolia take all appropriate actions to implement the Program, including the performance of the rights and responsibilities designated to it by the Government pursuant to this Compact and the Program Implementation Agreement. In addition, operations of MCA-Mongolia shall be subject to any other limitations MCC may require from time to time.

(i) Board of Directors. MCA-Mongolia shall be governed by a board of directors (the “**Board**”) that will have final decision making authority over the implementation of the Program. The Board shall consist of:

- (1) nine voting members:
 - (A) Prime Minister, as chairman of the Board;
 - (B) Minister of Finance;
 - (C) Minister of Roads, Transportation and Tourism;
 - (D) Minister of Education, Culture and Science;
 - (E) Minister of Health;
 - (F) Minister of Construction and Urban Development;
 - (G) one representative selected by the private sector;
 - (H) two representatives selected by civil society; and
- (2) nine non-voting members:
 - (A) MCC observer;
 - (B) MCA-Mongolia chief executive officer;
 - (C) MCA-Mongolia general counsel;
 - (D) State Secretary from Ministry of Social Welfare and Labour;
 - (E) State Secretary from Ministry of Food and Agriculture;
 - (F) one representative selected from the private sector who will be, after his/her term as non-voting member, the voting member from the private sector; and
 - (G) three representatives selected from civil society, of which, one will be an environmental observer and two will become, after their terms as non-voting members, voting members.

(ii) Technical Secretariat. A technical secretariat (the “**Technical Secretariat**”) shall support the Board in the implementation of the Program. A chief executive officer will manage the day-to-day activities of MCA-Mongolia and will be supported by: (1) a chief operating officer, (2) a chief financial officer, (3) a general counsel, (4) a procurement officer, (5) an environmental and social assessment officer, (6) a monitoring and evaluation officer, (7) a rail project director, (8) a peri-urban rangeland director, (9) an urban property rights director, (10) a vocational education project director, and (11) a health director, and such other

officers as may be agreed upon by the Government and MCC. The officers shall be supported by appropriate administrative personnel.

(iii) Ethics Disclosures. All voting members of the Board and the officers of the Technical Secretariat set forth in clause (ii) above shall be required to provide, in advance of assuming their respective positions and annually at such times as are required by Mongolia's Anti-Corruption Law, the financial and other disclosures required by such law. This obligation shall apply whether or not such law would, absent this provision, require such disclosure.

(b) Designation of MCA-Mongolia. The Government hereby designates MCA-Mongolia to implement all of the Government's obligations and to exercise all of the rights of the Government under this Compact and the Program Implementation Agreement. The Government acknowledges that such a designation does not relieve the Government of any of its obligations and rights under this Compact and the Program Implementation Agreement, for which the Government retains full responsibility.

(c) MCA-Mongolia Operations. The day-to-day operations of MCA-Mongolia shall be governed by MCA-Mongolia's bylaws, certificate of registration and internal regulations, which shall address, among other things, terms and conditions of employment at MCA-Mongolia.

(d) Nature of MCA-Mongolia. The Government acknowledges that:

(i) MCA-Mongolia is neither a Mongolian "government entity" nor a Mongolian "non-governmental entity" under the laws of Mongolia, and, as such, the laws of Mongolia regulating Mongolian government and non-governmental entities do not apply to MCA-Mongolia; and

(ii) as an independent legal entity established by the Government, any and all obligations of MCA-Mongolia in connection with this Compact are binding on the Government and may be carried out by the Government in the furtherance of the Compact.

(e) Stakeholders' Committee. The Government shall ensure a stakeholders committee (the "***Stakeholders' Committee***") is formed and approved by MCC, to continue the consultative process throughout the implementation of the Program by having the Stakeholders' Committee provide recommendations to the Board and the Technical Secretariat regarding issues, concerns and inputs arising from the implementation of the Program. Private sector members of the Stakeholders' Committee will be selected initially by private sector members of the National Council, and civil society members will be selected initially by the civil society members of the National Council.

(f) Effectiveness. This paragraph 2 of Part F of Annex I of the Compact shall be in effect from the date of execution of this Compact by the Parties without regard to the requirements for entry into force provided in Section 7.3 of the Compact.

3. Banking Services, Fiscal Management and Procurement.

(a) The Government shall ensure that a bank (the "***Bank***") is appointed, and the Permitted Accounts are established and banking services provided, in accordance with the terms of this Compact and the Program Implementation Agreement. The Bank will provide a broad

range of banking services required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Bank performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Bank is a party. The Government shall set out the roles and responsibilities of the Bank in one or more agreements to be entered into between MCA-Mongolia and the Bank.

(b) The Government shall ensure that a fiscal agent (the “**Fiscal Agent**”) is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Fiscal Agent will provide a broad range of financial management services required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Fiscal Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Fiscal Agent is a party and that all accounting in connection with the Program is in accordance with IAS. The Government shall set out the roles and responsibilities of the Fiscal Agent in one or more agreements to be entered into between MCA-Mongolia and the Fiscal Agent.

(c) The Government shall ensure that a procurement agent (the “**Procurement Agent**”) is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Procurement Agent will provide specified procurement activities required by MCA-Mongolia to implement the Program. The Government shall take all appropriate actions to ensure that the Procurement Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements to which the Procurement Agent is a party and in accordance with the MCC Program Procurement Guidelines. The Government shall set out the roles and responsibilities of the Procurement Agent in one or more agreements to be entered into between MCA-Mongolia and the Procurement Agent.

4. Project Implementation.

Except as otherwise agreed between the Parties, the Program will be implemented as follows:

(a) Rail Project implementation will be overseen by an outside project management firm.

(b) For the Property Rights Project, the Improvement of the Land Privatization and Registration System Activity and the Privatization & Registration of Ger Area Land Plots Activity will be implemented by a project implementation unit housed within the Ministry of Construction and Urban Development. The Peri-Urban Land Leasing Activity will be implemented by a project implementation unit housed within the Ministry of Food and Agriculture.

(c) The Vocational Education Project will be implemented by a program implementation unit housed within the Ministry of Education, Culture and Science.

(d) The Health Project will be implemented by a program implementation unit housed within the Ministry of Health.

(e) Each relevant project implementation unit housed within a ministry of the Government will function in accordance with the applicable terms of the Program

Implementation Agreement. The terms and conditions of employment, including remuneration and grounds for renewal or dismissal, shall be according to the terms of the applicable employment agreements and the labor policies specific to such project implementation unit. The staff of each such project implementation unit will be selected competitively without discrimination based on nationality or gender.

ANNEX II

SUMMARY OF MULTI-YEAR FINANCIAL PLAN

This Annex II to the Compact summarizes the multi-year financial plan for the Program.

1. General.

The multi-year financial plan summary below sets forth the estimated annual contribution of MCC Funding for administration, monitoring and evaluation, and implementation of the Program. The Government's contribution of resources will consist of "in-kind" and other contributions or amounts required to satisfy effectively the requirements of Section 2.5(a) of this Compact. In accordance with the Program Implementation Agreement, the Government shall develop and adopt, on a quarterly basis, a detailed financial plan, approved by MCC, setting forth annual and quarterly funding requirements for the Program, projected both on a commitment and cash requirement basis.

2. Modifications.

To preserve flexibility, the Parties may by written agreement (or as otherwise provided in the Program Implementation Agreement), without amending this Compact, change the designations and allocations of funds among the Projects, the Project Activities, or any component under Program administration or monitoring and evaluation, or between a Project identified as of entry into force of the Compact and a new project; *provided, however*, that any such change (a) is consistent with the Compact Goal, and Project Objectives, and the Program Implementation Agreement, (b) does not materially adversely affect the applicable Project or any component under Program administration or monitoring and evaluation, (c) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1 of this Compact, and (d) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.5(a) of this Compact.

MULTI-YEAR FINANCIAL PLAN SUMMARY

Project	CIF	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Rail Project							
(a) Rail Sector Technical Assistance Activity	0	7,913,500	4,444,500	2,920,000	2,770,000	1,970,000	20,018,000
(b) LeaseCo Establishment Activity	0	1,010,000	280,000	280,000	290,000	0	1,860,000
(c) LeaseCo Operation Activity	0	16,500,000	38,720,000	48,420,000	57,820,000	810,000	162,270,000
(d) Project Administration Costs (RPM)	0	634,500	1,057,500	1,057,500	1,057,500	423,000	4,230,000
Sub-Total	0	26,058,000	44,502,000	52,677,500	61,937,500	3,203,000	188,378,000
2. Property Rights Project							
(a) Land Registration System Activity	0	1,325,375	4,746,458	3,812,250	2,592,430	223,100	12,699,613
(b) Privatization of Ger Area Land Plots Activity	0	201,250	682,813	625,313	510,314	510,314	2,530,004
(c) Peri-Urban Land Leasing Activity	0	1,092,500	2,406,375	2,285,625	43,125	43,125	5,870,750
(d) Project Administration Costs	172,200	374,100	341,436	352,651	364,259	357,273	1,961,919
Sub-Total	172,200	2,993,225	8,177,082	7,075,839	3,510,128	1,133,812	23,062,286
3. Vocational Education Project							
(a) TVET National Framework Activity	100,000	200,000	200,000	0	0	0	500,000
(b) Industry-Led Skills Standards System Activity	0	500,000	2,500,000	3,000,000	2,000,000	200,000	8,200,000
(c) Competency-Based Training System Activity	0	800,000	5,000,000	5,000,000	3,000,000	500,000	14,300,000
(d) Career Guidance System Activity	0	250,000	300,000	100,000	100,000	100,000	850,000
(e) Project Administration Costs	126,600	343,800	286,998	296,518	306,371	302,569	1,662,856
Sub-Total	226,600	2,093,800	8,286,998	8,396,518	5,406,371	1,102,569	25,512,856
4. Health Project							
(a) NCDI Capacity Building Activity	75,000	325,000	1,900,000	2,300,000	1,000,000	997,000	6,597,000
(b) NCDI Prevention Activity	0	400,000	800,000	1,100,000	1,200,000	1,090,000	4,590,000
(c) NCDI Early Detection Activity	0	500,000	600,000	700,375	258,000	250,000	2,308,375
(d) NCDI Management Activity	0	800,000	900,000	250,000	250,000	173,000	2,373,000
(e) Project Administration Costs	111,500	216,000	201,300	207,821	214,569	207,554	1,158,744
Sub-Total	186,500	2,241,000	4,401,300	4,558,196	2,922,569	2,717,554	17,027,119
5. Monitoring and Evaluation							
Monitoring and Evaluation	40,250	562,350	471,500	469,200	385,250	2,768,050	4,696,600
Sub-Total	40,250	562,350	471,500	469,200	385,250	2,768,050	4,696,600
6. Program Administration and Audits							
(a) Program Administration (MCA-M)	741,133	1,677,533	1,265,720	1,185,579	1,056,132	1,063,405	6,989,502
(b) Fiscal Agent	1,800,000	1,340,000	1,340,000	1,340,000	1,340,000	1,340,000	8,500,000
(c) Procurement Agent	1,700,000	1,300,000	1,300,000	1,200,000	1,000,000	1,000,000	7,500,000
(d) Audit	156,000	234,000	350,000	350,000	350,000	390,000	1,830,000
(e) Environment & Social Oversight Consultant	0	620,000	350,000	245,000	100,000	100,000	1,415,000
Sub-Total	4,397,133	5,171,533	4,605,720	4,320,579	3,846,132	3,893,405	26,234,502
Total Estimated MCC Contribution	5,022,683	39,119,908	70,444,600	77,497,832	78,007,950	14,818,390	284,911,363

ANNEX III

SUMMARY OF MONITORING AND EVALUATION PLAN

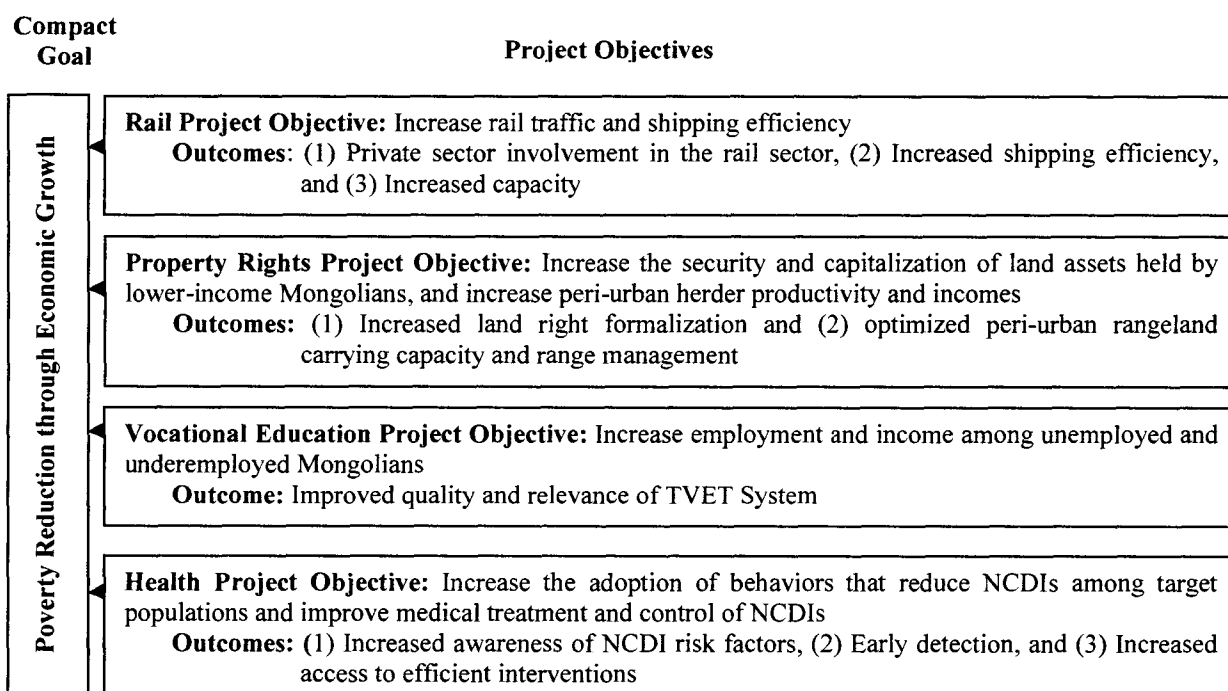
This Annex III to the Compact summarizes the components of the plan to measure and evaluate progress toward achievement of the Compact Goal and the Project Objectives (“**M&E Plan**”).

1. Overview.

MCC and the Government shall formulate and agree to, and the Government shall implement or cause to be implemented, the M&E Plan that specifies (a) how progress toward the Compact Goal, Project Objectives and the intermediate results of each Project and Project Activity set forth in this Annex III (“**Outcomes**”) will be monitored (“**Monitoring Component**”), (b) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project Activities to determine their efficiency, effectiveness, impact and sustainability (“**Evaluation Component**”) and (c) other components of the M&E Plan described below.

Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, shall be made publicly available on MCA-Mongolia’s website and elsewhere. The Compact Goal, Project Objectives and Outcomes can be summarized as follows:

PROGRAM LOGIC



2. Monitoring Component.

To monitor the progress toward the achievement of the Compact Goal, Project Objectives and Outcomes, the Monitoring Component of the M&E Plan shall identify (a) the Indicators, (b) the

persons responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA-Mongolia, and (c) the method by which the reported data will be validated.

(a) **Indicators.** The M&E Plan shall measure the impacts of the Program using objective and reliable information (“**Indicators**”). Each Indicator shall have one or more expected values that specify the expected results and time for the impacts to be achieved (“**Target**”). The M&E Plan shall measure and report on Indicators at four levels. First, the Indicators at the Compact Goal level (“**Goal Indicator**”) shall measure the impact of the overall Program and each Project. Second, the Indicators at the Project Objectives level (“**Objective Indicator**”) shall measure the final results of each of the Projects, including impacts on the intended beneficiaries identified in Annex I (collectively, the “**Beneficiaries**”). Third, Indicators at the intermediate level (“**Outcome Indicator**”) shall measure the results achieved under each of the Project Activities and will provide an early measure of the likely impact under each of the Projects. A fourth level of Indicators (“**Output Indicator**”) shall be included in the M&E Plan to measure the direct outputs of Project Activities. Indicators shall be disaggregated by sex, income level and age, to the extent practicable. Subject to prior written approval from MCC, MCA-Mongolia may add Indicators or modify the Targets of existing Indicators.

Goal Indicators			
Indicator	Baseline	Year 5 Target	Year 10 Target
Increase in GDP due to Program ²	US\$3.19 billion	US\$4.63 billion	US\$5.97 billion
Poverty Headcount ³	19.1%	18.4%	17.5%

² Measured by total annual GDP. Units are 2007 USD converted at market rate.

³ Baseline is computed using a 1 US\$ per day poverty line assuming total income from the 2002/03 HIES-LSMS as the welfare aggregate. The baseline and targets may be recalibrated in consultation with MCA-Mongolia using consumption as the welfare aggregate.

Indicators: Rail Project				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Creation of new jobs and increased firm profitability	Increase in GDP due to rail improvements	Incremental level of GDP due to transport cost savings (2007 US\$ millions) ⁴	0	62
Increased economic activity via rail network	Freight turnover (million ton-km)	Freight mass multiplied by distance transported, includes shipping by all rail operators in Mongolia ⁵	9,219	22,301
	Mine traffic (thousand metric tons)	Domestic plus export traffic of coal and other minerals	6,684	16,156
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Private sector involvement in the rail sector	Percent of wagons leased by private firms	Percent of MCC financed wagons leased by private firms	0	10%
Increased shipping efficiency	Railway operating ratio	Operating Expense/Operating Revenue	95	87
	Customer satisfaction	Customer satisfaction as determined by survey of rail customers ⁶	TBD	TBD
	Wagon time to destination (days)	Number of days from the time a wagon starts loading until the time it starts loading again. This is a monthly average of all operating and operable wagons in the fleet.	5.2	5.0
Increased capacity	Average locomotive availability (%)	Numerator: Locomotives at rail operator's disposal minus locomotives in repair Denominator: Locomotives at rail operator's disposal	50	76

Indicators: Property Rights Project (Improvement of Land Privatization and Registration System Activity & Privatization & Registration of Ger Area Land Plots Activity)				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased capitalization of land assets	Immovable property value of <i>hashaa</i> plots (2007 US\$/sq. meter)	Average sales price of <i>hashaa</i> plot per square meter in Ulaanbaatar	7.28	8.23
		Average sales price of <i>hashaa</i> plot per square meter in target communities outside Ulaanbaatar ⁷	2.44	2.62
	Households accessing bank credit	Number of <i>hashaa</i> plot owners in Ulaanbaatar who are using their <i>hashaa</i> plots as collateral. ⁸	6,400	23,400
Output-level result	Output Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased land right formalization	<i>Hashaa</i> plots directly registered by the Property Rights Project	Cumulative number of <i>hashaa</i> plots registered by contractors of MCA-Mongolia	0	75,000

⁴ For reporting, total GDP will suffice to monitor this indicator. Incremental GDP requires establishing a counterfactual which would require numerous assumptions and detailed modeling; this task may be included in the final evaluation.

⁵ As of 2007, the only rail operator was UBTZ; however, it is possible for other rail operators to emerge in the future.

⁶ A customer satisfaction survey will be carried out under the Compact.

⁷ Average figure of 2.44 US\$/sq meter represents 4 out of 8 non-Ulaanbaatar communities; the baseline will be completed under the Compact.

⁸ Baseline of 6,400 owners currently using their plots as collateral will be substantiated and possibly revised during Year 1 of the Compact. If the baseline is revised, the target will be modified proportionally.

Indicators: Property Rights Project (Peri-Urban Land Leasing Activity)				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased herder household income	Income of herder households on long-term lease land	Net income of herder households on long-term lease land measured by total consumption (2007 US\$) ⁹	US\$4,650	US\$5,330
Increased peri-urban herder productivity	Herd mortality rate	Annual mortality rate of cattle	5.6	4.5
	Liters of milk per cow	Annual average liters of milk per cow on semi-intensive project farms	260	1,050
		Annual average liters of milk per cow on intensive project farms	260	1,950
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Optimize peri-urban rangeland carry capacity and range management	Number of herder groups adopting intensive farm management techniques	Number of settlements meeting the following criteria: (i) sheep units per 100 ha of pasture is +/- 20% of recommended carrying capacity for intensive farm, (ii) livestock is predominately (75%+) cows, and (iii) hay stored at beginning of winter season is at least 180 days of dairy herd requirement.	0	40
	Number of herder groups adopting semi-intensive farm management techniques	Number of settlements meeting the following criteria: (i) sheep units per 100 ha of pasture is +/- 20% of recommended carrying capacity for semi-intensive farm, and (ii) hay stored at beginning of winter season is at least 30 days of dairy herd requirement.	0	260

⁹ Net of livestock-related expenses, land leasing payments, and debt service. Baseline of US\$4,650 will be substantiated and revised if necessary during the Compact. If the baseline is revised, the target will be modified proportionally.

Indicators: Vocational Education Project				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased Income	Annual salary (2007 US\$)	Average annual salary of employed graduates who completed new curriculum one year after graduation (targets are percent increase over Year 3 level when a new baseline will be taken) ¹⁰	1,237	+5%
Increased Employment	Rate of employment	Employment rate of graduates who completed new curriculum one year after graduation (targets are percent increase over Year 3 level when a new baseline will be taken) ¹¹	71%	+2%
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Improved quality and relevancy of TVET system	Non-governmental funding of vocational education	Percentage of non-governmental funding out of all funding for the Ministry of Education, Culture and Science and the Ministry of Social Welfare and Labour vocational education institutions.	1%	12%
	Students completing newly designed long-term programs	Number of students who successfully receive certification from newly designed long-term programs (annual)	0	10,600
	Certified vocational education teachers	Percent of total teaching staff which has successfully completed the certification exam.	0%	80%
Output-level result	Output Indicator	Definition of Indicator	Baseline	Year 5 Target
Improved quality and relevance of TVET system	Percent of active teachers receiving certification training	Percent of active teachers receiving certification training regardless of pass/fail status	0%	100%

¹⁰ Target is a weighted average for all students. Wages are expected to increase by 9% and 3% for employed graduates of regional methodological centers and other VTE schools respectively.

¹¹ Target is a weighted average for all students. Employment is expected to increase by 5% and 1% for graduates of regional methodological centers and other VTE schools respectively.

Indicators: Health Project ¹²				
Objective-level result	Objective Indicator	Definition of Indicator	Baseline	Year 5 Target
Increased control and prevention of NCDs	Diabetes and hypertension controlled	Percentage of people who, through a combination of diet, exercise and medication, successfully control disease out of population with disease.	24.4%	44.4%
	Cervical cancer prevention	Percent of women diagnosed with pre-cancerous lesions who are appropriately treated. ¹³	0%	80%
Outcome-level result	Outcome Indicator	Definition of Indicator	Baseline	Year 5 Target
Early detection	Percentage of cancer cases diagnosed in early stages	Percentage of cervical and breast cancer cases diagnosed in first or second stage	28%	48%
	% of those with known diagnosis of hypertension/diabetes out of all actual cases in adult population	Numerator: Number of those previously diagnosed with disease Denominator: Number with disease as determined by biometric/biochemical portion of STEP Survey	43%	59%
Increased access to efficient interventions	Screened for breast and cervical cancer	Number of women 35 to 40 who have ever received a comprehensive preventative health check-up including a clinical breast exam and visual cervical exam ¹⁴	TBD	39,000
	Counseling for diabetes and hypertension	Percent of patients diagnosed with elevated blood pressure and/or blood sugar who receive proper counseling ¹⁵	63%	95%

The M&E Plan will also include specific indicators demonstrating knowledge, attitudes, and practice regarding NCDI risk factor reduction among target demographics. These indicators will capture the Outcome of “Increased Awareness of NCDIs.” These indicators will be determined before Year 2 as studies on the best intervention strategies are concluded.

(b) Data Collection and Reporting. The M&E Plan shall establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible persons. The Technical Secretariat of MCA-Mongolia shall conduct regular assessments of Program performance to inform the Board of MCA-Mongolia and MCC of progress under the Program and to alert them of any problems. These assessments shall report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. MCA-Mongolia shall deliver any data or reports received by MCA-Mongolia promptly to MCC along with any other related documents, as specified in the M&E Plan or as may be requested from time to time by MCC.

(c) Data Quality Reviews. As determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan shall be reviewed to ensure that data reported are as reliable, timely and valid as resources allow. The objective of any data

¹² All figures refer to the population within the areas targeted by the project, 60% of the country. The M&E Plan will disaggregate figures by breast cancer, cervical cancer, hypertension, and diabetes for the respective indicators. The figures presented here are the average of the two diseases (breast with cervical cancer and hypertension with diabetes).

¹³ In 2006, there were 17 women treated for breast cancer and 113 treated for cervical cancer (113 treated). These are national figures; the M&E Plan may choose to track figures specific to the target regions.

¹⁴ The baseline for screening for breast and cervical cancer will be determined during Year 1 of the Compact.

¹⁵ The figures presented here are based on successfully controlled cases according to the STEP survey 2006. The M&E Plan may use facility based data instead of the STEP survey in which case the baseline will be modified to reflect the change in data source.

quality review shall be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews shall also serve to identify where consistent levels of quality are not possible, given in-country capacity or other constraints. MCA-Mongolia shall enter into an agreement, in a form acceptable to MCC, with the reviewer to fulfill the provisions set forth in paragraph 1 of this Annex III and this clause (c).

3. Evaluation Component.

The Program shall be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component of the M&E Plan shall contain a methodology, process and timeline for collecting and analyzing data in order to assess planned, ongoing, or completed Project activities to determine their efficiency, effectiveness, impact and sustainability. The evaluations should use state-of-the-art methods for addressing selection bias. The Government shall implement, or cause to be implemented, surveys to collect longitudinal data on both Beneficiary and non-Beneficiary households. The Evaluation Component shall contain plans for Final Evaluations and Ad Hoc Evaluations, and shall be finalized before any Disbursement for specific Project activities or the Program.

(a) Final Evaluation. MCA-Mongolia shall engage an independent evaluator to conduct an evaluation of the Program at the expiration or termination of the Program ("**Final Evaluation**"). The evaluation methodology, timeline, data collection, and analysis requirements shall be finalized and detailed in the M&E Plan. The Final Evaluations shall at a minimum (i) estimate quantitatively and in a statistically valid way, the causal relationship between the Compact Goals (to the extent possible), the Project Objectives and Outcomes; (ii) determine if and analyze the reasons why the Compact Goals, Project Objectives and Outcomes were or were not achieved; and (iii) assess the overlapping benefits of the Projects.

(b) Ad Hoc Evaluations or Special Studies. Either MCC or MCA-Mongolia may request ad hoc or interim evaluations or special studies of Projects, Project Activities, or the Program as a whole prior to the expiration of the Compact Term (each, an "**Ad Hoc Evaluation**"). If MCA-Mongolia engages an evaluator for an Ad Hoc Evaluation, the evaluator shall be an externally contracted independent source selected by MCA-Mongolia, subject to the prior written approval of MCC, following a tender in accordance with the MCC Program Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter, the Program Implementation Agreement or any other related agreement or arrangement. If MCA-Mongolia requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project Activity or seeking funding from other donors, no MCC Funding or MCA-Mongolia resources may be applied to such evaluation or special study without MCC's prior written approval.

4. Other Components of the M&E Plan.

In addition to the Monitoring Components and the Evaluation Components, the M&E Plan shall include the following components for the Program, Projects and Project Activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) Costs. A detailed annual budget estimate for all components of the M&E Plan.

(b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Project Objectives and Outcomes; *provided* that such assumptions and risks will not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan.

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with the Annex I, this Annex III, the Program Implementation Agreement and any other related agreement or arrangement.

(b) Stakeholders' Committee. The completed portions of the M&E Plan shall be presented to the Stakeholders' Committee at its initial meeting, and any amendments or modifications to and any additional components of the M&E Plan shall be presented to the Stakeholders' Committee at its appropriate subsequent meetings. The Stakeholders' Committee shall have the opportunity to present its suggestions to the M&E Plan, which the Board of MCA-Mongolia will take into consideration in its review of any amendments to the M&E Plan during the Compact Term.

(c) Disbursement Conditions. A condition to each Disbursement shall be satisfactory progress on the M&E Plan for the relevant Project or Project Activity, and substantial compliance with the M&E Plan, including any reporting requirements. In addition, for certain activities, collection of baseline data may be a condition precedent for specified Disbursements.

(d) Modifications. Notwithstanding anything to the contrary contained in this Compact, including the requirements of this Annex III, the Parties may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending this Compact; *provided, however*, that any such modification or amendment of the M&E Plan shall be reviewed by the Stakeholders' Committee and has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact, the Project Objectives, the Program Implementation Agreement and any other related agreement or arrangement.

ANNEX IV

DEFINITIONS

Ad Hoc Evaluation has the meaning provided in paragraph 3(b) of Annex III.

ADB means the Asian Development Bank.

Audit Guidelines has the meaning provided in Section 3.8(a).

Bank has the meaning provided in paragraph 3(a) of Part F of Annex I.

Beneficiaries has the meaning provided in paragraph 2(a) of Annex I.

Board has the meaning provided in paragraph 2(a)(i) of Part F of Annex I.

Compact has the meaning provided in the Preamble.

Compact Goal has the meaning provided in Section 1.1.

Compact Implementation Funding has the meaning provided in Section 2.2(a).

Compact Records has the meaning provided in Section 3.7(a).

Compact Term has the meaning provided in Section 7.4.

Covered Provider has the meaning provided in Section 3.7(c).

Disbursement has the meaning provided in Section 2.3.

EMP means an environmental management plan.

Evaluation Component has the meaning provided in paragraph 1 of Annex III.

Final Evaluation has the meaning provided in paragraph 3(a) of Annex III.

Fiscal Agent has the meaning provided in paragraph 3(b) of Part F of Annex I.

Goal Indicator has the meaning provided in paragraph 2(a) of Annex III.

Government has the meaning provided in the Preamble.

Health Project mean the Project described in Part E of Annex I.

IAS means the standards issued by the International Accounting Standards Board and include International Accounting Standards, International Financial Reporting Standards and interpretations of each.

Implementation Letter has the meaning provided in Section 3.5.

Indicators has the meaning provided in paragraph 2(a) of Annex III.

Inspector General has the meaning provided in Section 3.8(a).

LeaseCo has the meaning provided in paragraph 2(b) of Part B of Annex I.

LeaseCo Assets has the meaning provided in paragraph 2(c)(i) of Part B of Annex I.

M&E Plan has the meaning provided in Annex III.

MCA-Mongolia has the meaning provided in paragraph 2(a) of Part F of Annex I.

MCC has the meaning provided in the Preamble.

MCC Environmental Guidelines has the meaning provided in Section 2.6(c).

MCC Funding has the meaning provided in Section 2.1.

MCC Indemnified Party has the meaning provided in Section 6.7.

MCC Program Procurement Guidelines has the meaning provided in Section 3.6.

MCC Website has the meaning provided in Section 2.6.

Monitoring Component has the meaning provided in paragraph 1 of Annex III.

MRA has the meaning provided in paragraph 2(a) of Part B of Annex I.

NABVET has the meaning provided in paragraph 2(a)(ii) of Part D of Annex I.

National Council means the MCA National Council that was established by the Government, with high-level representation from the Government, civil society and the private sector to develop a proposal for MCC assistance to Mongolia.

NCDI has the meaning provided in Section 1.2(d).

Objective Indicator has the meaning provided in paragraph 2(a) of Annex III.

OpCo has the meaning provided in paragraph 2(b)(iii) of Part B Annex I.

Outcome Indicator has the meaning provided in paragraph 2(a) of Annex III.

Outcomes has the meaning provided in paragraph 1 of Annex III.

Output Indicator has the meaning provided in paragraph 2(a) of Annex III.

Parties has the meaning provided in the Preamble.

Permitted Account has the meaning provided in Section 2.3.

Principal Representative has the meaning provided in Section 4.2.

Procurement Agent has the meaning provided in paragraph 3(c) of Part F of Annex I.

Program has the meaning provided in the Preamble.

Program Implementation Agreement has the meaning provided in Section 3.1.

Project has the meaning provided in paragraph 2 of Part A of Annex I.

Project Activity means the various activities to be undertaken in the implementation of particular Projects, including:

- with respect to the Rail Project, the:
 - **Rail Sector Technical Assistance Activity,**
 - **LeaseCo Establishment Activity, and**
 - **LeaseCo Operation Activity;**
- with respect to the Property Rights Project, the:
 - **Improvement of the Land Privatization and Registration System Activity,**
 - **Privatization & Registration of Ger Area Land Plots Activity, and**
 - **Peri-Urban Land Leasing Activity;**
- with respect to the Vocational Education Project, the:
 - **Reforms to TVET Policy and Operational Framework Activity,**
 - **Creation of Skills Standards and Competencies System Activity,**
 - **Competency-Based Training System Activity, and**
 - **Career Guidance System Activity; and**

- *with respect to the Health Project, the:*
 - **NCDI Capacity Building Activity,**
 - **NCDI Prevention Activity,**
 - **NCDI Early Detection Activity, and**
 - **NCDI Management Activity.**

Project Objective has the meaning provided in Section 1.2.

Property Rights Project mean the Project described in Part C of Annex I.

Provider has the meaning provided in Section 3.7(c).

Rail Project mean the Project described in Part B of Annex I.

Stakeholders' Committee has the meaning provided in paragraph 2(e) of Part F of Annex I.

Target has the meaning provided in paragraph 2(a) of Annex III.

Taxes has the meaning provided in Section 2.7(a).

Technical Secretariat has the meaning provided in paragraph 2(a)(ii) of Part F of Annex I.

TVET has the meaning provided in paragraph 2(a) of Part D of Annex I.

UBTZ has the meaning provided in paragraph 1 of Part B of Annex I.

Vocational Education Project mean the Project described in Part D of Annex I.

WHO has the meaning provided in paragraph 4 of Part E of Annex I.